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PROBE
EXPLORATION INC.

BALANCING RISK
FOR CONTINUED GROWTH

1995 ANNUAL REPORT
AND 1ST QUARTER REPORT

CORPORATE PROFILE

Probe Exploration Inc. is a rising energy company, with a corporate strategy that emphasizes the development of proven oil reserves. Probe achieved progress in every major project in which the Company was involved during 1995.

Probe continued to consolidate working interests in core areas and now operates all of its six major projects. New technical programs were applied on key development properties, establishing substantial oil and gas revenue. Due to prudent development and resulting stable cash flow, Probe will be able to internally fund future exploration of its large acreage position.

At the date of writing, the Company had 28,524,848 common shares issued and outstanding, of which management, staff and directors owned or controlled 55%.

The common shares of Probe Exploration Inc. are listed on the Alberta Stock Exchange under the trading symbol "PRX". The Company is also a reporting issuer in the province of Quebec.

ANNUAL GENERAL MEETING

The Annual General Meeting of shareholders will be held on Wednesday, December 6, 1995, at 3 p.m. in the Trophy Room of the Calgary Petroleum Club, located at 319 - 5th Avenue S.W., Calgary, Alberta.

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CORPORATE HIGHLIGHTS

	Year ended June 30		Three months ended Sept. 30 (unaudited)	
	1995	1994	1995	1994
FINANCIAL				
Gross revenue	1,201,963	644,512	726,418	254,179
Gain on sale of assets	—	508,596	—	—
Funds from operations	244,536	21,136	233,342	39,544
Earnings				
before depletion and interest	263,949	562,621	259,952	41,699
Net income	65,493	428,494	139,615	(5,278)
Cash flow provided by operating activities	683,494	152,010	221,266	112,362
Oil and gas properties				
(net of depletion and depreciation)	7,022,031	3,544,932	7,222,808	3,990,047
Common shares outstanding	22,524,848	19,896,402	28,524,848	21,521,277
- to be issued	6,000,000	—	—	—
(at end of period)				
OPERATING				
Production - BOEPD (avg.)	225.6	92.7	466	200
Land holdings (acres)				
Gross	194,533	107,067		
Net	95,795	35,933		
Drilling activity				
Total wells	14	17		
Exploratory wells	3	13		
Development wells	7	4		
Recompletions	4	—		
Probe-operated	8	11		
Reserves - MBOE				
Proven	5,314	1,671		
Probable (risked 50%)	1,659	718		
NPV at 15%	\$ 38,830,200	\$15,764,000		





PRESIDENT'S LETTER TO SHAREHOLDERS

SUSTAINING GROWTH REQUIRES A BALANCED APPROACH TO RISK

Companies aspiring to succeed in the current business environment must have the ability to manage risk in an uncertain industry characterized by fluctuating currency and commodity prices as well as unreliable capital markets. In Probe's approach to risk management, we identify the strengths and weaknesses in projects and corporate strategy, determining whether strengths and weaknesses can be counter-balanced. Decisions are made from this framework and we determine, first and foremost, how the Company will handle adverse outcomes.

Relatively unique for a junior oil company, Probe is not dependent upon any single project or capital source; this degree of diversification and variety of capitalization gives Probe the flexibility to exploit a wide range of opportunities.

This annual report documents Probe's proven ability to manage risk and, through its strategic mix of acquisition, development and exploration, to sustain growth well into the future.

MEETING OBJECTIVES WHILE MAINTAINING FINANCIAL INTEGRITY

Probe management knows that, for long-term growth, stable cash flow is required to internally fund exploration requirements. Development of the Company's reserve base continues to be our means of strengthening cash flow. Our success is apparent in the year-end and first quarter financial results, which confirm large gains in oil and gas revenues.

Strategic acquisitions increased working interests in current projects, as did the purchase of new land and reserves in existing core areas. Technical programs were initiated on these acquisitions which, in every case, added substantial value.

HOW PROBE SET AND MET OBJECTIVES FOR FISCAL '95

Probe management set solid objectives for 1995 and, working with modest amounts of capital, either exceeded or made progress toward most objectives, without incurring long-term debt. During the past year we:

- doubled our average production to 225 BOEPD
- more than doubled first quarter production to 465 BOEPD plus 350 BOEPD of shut-in production
- increased cash flow
- maintained average working interest well in excess of 40% on core projects
- continued to acquire operatorship on new projects
- tripled our net land base to 96,000 acres
- proportionately increased our reserves of gas and light oil, thus achieving a more balanced commodity mix
- decreased per unit operating cost by 30%
- decreased per unit General & Administrative costs by 50%

RESERVE ADDITIONS EXCEED EXPECTATIONS

During 1995, Probe's reserve base improved significantly. Reserve additions totalled 4.6 MBOE at a net cost of \$1.10 per BOE. The Company's total reserve base is now estimated at 6.9 MBOE, with a net present value of \$39 million discounted at 15%. Proven reserves now account for 76% of our total. Reserves classified as proven-producing increased by four times. Heavy oil reserves at Kitscoty now comprise only 27% of Probe's total reserves.

FIRST NATIONS' ALLIANCE PRODUCES EXCEPTIONAL LAND BASE

A key element in Probe's land strategy is our continuing acquisition of drilling rights from First Nations Groups. We have increased our exploratory land base significantly, to 194,533 gross acres, exceptional for an emerging company. As we continue this strategy in the coming fiscal year, we look forward, with our First Nations partners, to the exploratory potential of these lands.

SOLID FINANCIAL RELATIONSHIPS

The increasing maturity of the Company's asset base is reflected in a new \$5 million credit facility with Alberta Treasury Branches. At the time of writing, the operating line has a borrowing base of \$3 million; the loan base can be expanded as Probe's cash flow is developed. This facility gives the Company flexibility in structuring its capital requirements and pursuing investment opportunities. The ability to obtain debt financing provides an important balance to Probe's other sources of capital. In spite of poor market conditions, we continue to have access to equity and joint venture financing. Negotiations are currently underway for a convertible debenture issue, a sidecar financing, facilities funding and promoted joint ventures.

Probe continues to enjoy a good relationship with major investors — The Petrovest Group of Montreal, The Enerplus Group — and we are grateful for their ongoing support. We have undertaken several initiatives to expand our relationships with investor groups in Calgary, Toronto, Montreal and London. While Probe currently lacks the market capitalization to attract mainstream interest, we are now on the watch list of several analysts and their feedback has proven invaluable.

STRATEGICALLY ACQUIRING ASSETS

Probe's largest transaction for the year — the purchase of all of the western Canadian assets of Intermont Inc. of Montreal for 6 million common shares — illustrates management's strategy of providing for growth without jeopardizing our financial position. This acquisition strengthened our cash flow, added proven reserves in two core areas and helped us achieve a more balanced product mix.

MAKING THE MOST OF WORKING INTERESTS

In addition, Probe management has been very successful at taking large working positions in a project, then adding value through technical programs and recouping our costs by bringing in partners on a promoted basis. This "recycling" of capital is not a source of funds which can be recognized in our financial information, but it constitutes an important part in our funding strategy.

SHARE PRICE AND LIQUIDITY LEVELS

We have seen mixed results in our objective of increasing share price and liquidity. Liquidity and price for the first half of calendar 1995 were good, especially in light of a generally poor junior oil market. The price of Probe common shares generally trended upward to a high of \$0.57 in June. Subsequently, our price has drifted down on thin volumes, even as positive results have been consistently reported. All of Probe's staff, management and directors are also shareholders, and we collectively intend to make every effort to increase the value of our investment in Probe.

STEWARDSHIP OF THE CORPORATION

The Board of Directors of Probe represent the highest levels of experience and involvement in the corporation, and their significant contributions are in accordance with the guidelines prescribed by the Toronto Stock Exchange for corporate governance. The Board assumes responsibility for stewardship of the corporation, which includes corporate strategic planning, corporate communications, maintaining the integrity of internal controls and succession management. For their guidance and devotion, we would like to thank all members of the Board.

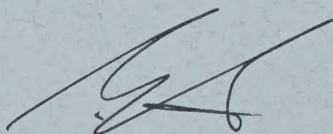
DEDICATION AND ENTHUSIASM

Once again, the employees and management of Probe have proven that their diligence and expertise are the key to Probe's ability to meet its objectives. Probe staff members have been unrelenting in terms of their dedication and enthusiasm. In particular, our Controller, Sandra Harder, CGA, exemplifies the determination and commitment that make Probe a success. The addition of Barrie Wright, P.Eng., to head Probe's technical team gives us the depth required to meet next year's aggressive objectives. Through our team's efforts, Probe will continue to operate in a manner which balances gain with risk, while ensuring financial viability and enhancing shareholder value.

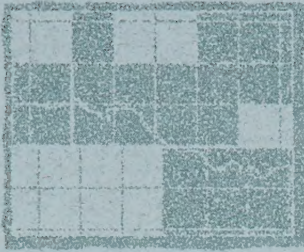
We would like to welcome Intermont Inc. as shareholders of Probe and as beneficiaries of their investment in a Calgary-based, rapidly emerging energy company possessing a highly experienced technical team.

Performance and perseverance are the watchwords for Probe Exploration Inc. throughout this new fiscal year, and we look forward to reporting our progress to you.

On behalf of the Board of Directors,



Stephen P. Gibson
President



OPERATIONS REVIEW

As stated in Probe's 1994 objectives, our 1995 strategy focused on cash flow as well as on development and operations. Overall production volume showed the sharp increase we pursued, from 93 BOEPD in the previous fiscal year to 225 BOEPD, with an exit rate of 460 BOEPD. With 350 BOEPD shut in, Probe is on track to achieve the daily production target of 750 BOEPD by the end of calendar 1995, which management considers an important milestone in our quest for cash flow sufficient to internally fund capital projects.

On June 30, 1995, Probe ratified the takeover of Montreal-based Intermont Inc., an acquisition that added approximately \$750,000 per year to Probe's cash flow, with some potential for upside. It also adds to the reserve base in two of Probe's core areas. Intermont is characteristic of an acquisition where existing infrastructure — processing, production and transportation facilities — are already in place, resulting in a minimum need for capital that Probe identified as an operating strategy for 1995.

Probe will continue to accelerate the development of the projects it currently owns. This course of action began early in 1995, and will continue through mid-1996, at which time the large reserve base should be producing a corresponding level of stable cash flow.

The 1996 base capital budget consists of 12 wells, of which eight are development and two are horizontal. The average working interest is 40% which, identified as a management objective last year, is Probe's target level of participation. Should further capital become available, another 11 prospective locations have been identified. The base line program will require \$1 million (net to Probe), while the expanded program will require an additional \$1.4 million. These costs include the tie-in and equipping portion of the projects, which will be funded through the Company's debt facilities.

LAND AND DRILLING

Probe's movement into a development-oriented phase of operations was made possible by the number of large reserve base projects which the Company operates. This emphasis towards exploitation projects will be maintained through 1996.

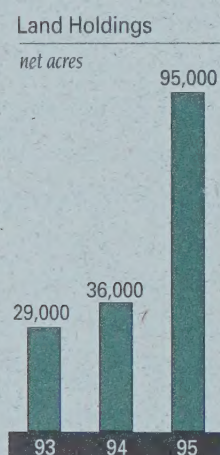
Nineteen ninety-five saw the drilling and recompletion of 14 wells, three of which were classified as exploratory. Probe operated eight of the 14 wells, of which seven were oil wells, two were gas wells, and five were dry holes. Cumulatively, the Company exceeded its goal of maintaining a 40% working interest on these projects.

<i>Drilling Activity</i>	1995	1994
Total wells	14	17
Exploratory wells	3	13
Development wells	7	4
Recompletions	4	—
Probe-operated	8	11

A large part of Probe's continued success is also due to the support and expertise given to us by several technical service groups. Our operating strategy includes the building of long-term alliances with such companies as Sperry Sun, Sedco Drilling, Venture Seismic, Global Steel, Culshaw Petroleum and Canadian Fracmaster. Their positive attitude toward business development with Probe and their genuine enthusiasm for our programs have been outstanding.

During fiscal 1995, Probe spent \$211,766 on seismic acquisition including 2-D exploration and 3-D development work. The information obtained from this data was utilized in locating the wells drilled during the past year, and several of the wells planned for the coming year. While seismic does not provide increases in cash flow in the short term, a focused geophysical program is vital for Probe's continued growth.

Probe's land position saw a sharp upswing in 1995. Opportunities for acquisitions in core areas resulted in a doubling of our gross land holdings while net acreage tripled. The increase in net acreage highlights our commitment to increased working interests in concentrated areas. This commitment has led to the formation of a land strategy not often seen in a company the size of Probe.



Probe recognizes that future exploration success is partially built on having a significant working interest in a sizeable, concentrated land position. Capital constraints dictate that junior producers simply cannot bid competitively on large blocks of Crown acreage in active areas. Accordingly, since 1992, Probe has been assembling land in areas somewhat "off the beaten path". General industry interest has tended to follow us into these project areas with resulting increases in land prices and exploration activity. Probe's holdings in Jenner and south eastern Saskatchewan are prime examples of this game plan at work. Lands which were acquired in 1993 are now regularly attracting farm-in interest. This use of other partners' capital for the drilling of exploratory tests also plays an important role in how we manage risk.

Another component of Probe's land strategy is our growing relationship with First Nations groups. In 1994, we identified Indian reserves as potentially the best opportunity to assemble large contiguous blocks of exploratory acreage. These lands are all considered to be in Probe's core operating area and are natural extensions to our Kitscoty and Neilburg projects.

AREA HIGHLIGHTS

Core Projects



Neilburg

Probe acquired substantially all of the western Canadian assets of Montreal-based Intermont Inc., valued at approximately \$4,000,000. These assets consist of five properties, two of which are within Probe's existing core areas. The Neilburg property in west central Saskatchewan consists of a 25% working interest in 6,100 acres of land, with 35 vertical wells and four horizontal wells producing from the McLaren and Colony sands. At the time of the acquisition, production was 125 BOPD net to Probe; this has increased to 150 BOPD during the first quarter of fiscal 1996. Further development will continue, with upside identified in pumping optimization plus additional reserves in the Colony and Sparky formations.

Kitscoty

Probe operates a heavy oil project on 640 acres of land in the Kitscoty area, which contains two producing horizontal oil wells, 27 vertical oil wells, two gas wells and two water disposal wells. Production from Kitscoty is subject to an Experimental Heavy Oil Crown Royalty of 5%.

Probe also owns and operates the infrastructure associated with the Kitscoty project. These facilities include a battery where the oil is processed, a steam generation and injection plant, water disposal equipment and a gas supply system which fuels these facilities. This prospect comprises two development projects: a thermal-enhanced recovery scheme in the main Sparky B Pool, and the development of a series of by-passed and isolated zones located on Probe lands.

Original oil in place for the Sparky B Pool is estimated to be 13,650 MSTB. Reservoir studies performed on the pool indicate that up to 50% of the oil in place can be recovered through the implementation of a thermal recovery process. This project involves steam injection into the reservoir, through vertical wells; oil production is from horizontal wells, plus 13 vertical wells that will be reactivated. Kitscoty is based on reservoir models and analogies to other similar projects which are operating successfully.

Our planned work program over this past year has been severely constrained by partner problems which have now been solved by our agreement to purchase the partner's interest.

In October of 1994, we commenced steam injection; first reservoir response was seen in February of 1995. Water cuts have decreased and oil production increased from 60 BOPD to 300 BOPD with an average rate of 225 BOPD. Operating costs have been substantially reduced by the installation of flowlines. Recompletion of two additional gas wells ensures an adequate supply of fuel gas for our facilities. Plant recommissioning and battery turnaround were both completed and operating staff was subsequently reduced.

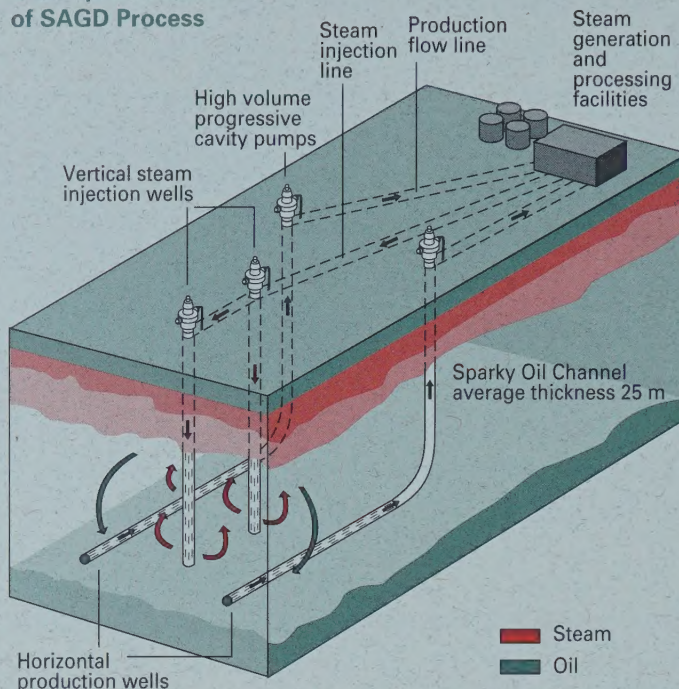
Probe is particularly pleased with the operating netbacks for its first full year of operations, especially with less than optimum production rates. Particular credit must be given to Ken Gilbreath, Operations Manager, and Barry Schroh, Project Foreman, for their outstanding efforts in making this a viable project. For 1996, Probe has planned a 3-D seismic program which will be used to locate four new horizontal wells — two at either end of the channel complex. The seismic program will also be used to confirm the existence of an additional sand structure located north of the existing producing channel.

In order to obtain production from by-passed zones, Probe is planning a series of recompletions of existing well bores. It is anticipated that these sands will produce without the aid of thermal enhancement. If the initial phases of the recompletion project are successful, additional work will be carried out throughout 1996.

Leduc

Leduc, one of the brightest prospects on Probe's horizon, was augmented this fiscal year through the acquisition of additional land. The Company's holdings increased to 14 sections which Probe operates and has a 45-100% working interest plus royalty lands. Currently, Probe has shut-in reserves of 10.6 BCF and is endeavouring to resolve the area's facility bottleneck. In order to bring production back on stream, Probe made application in August 1995 to build a zero

3-D Representation of SAGD Process



Leduc Core Lands



emission gas plant at Leduc. The application is progressing towards permission to proceed with the construction phase.

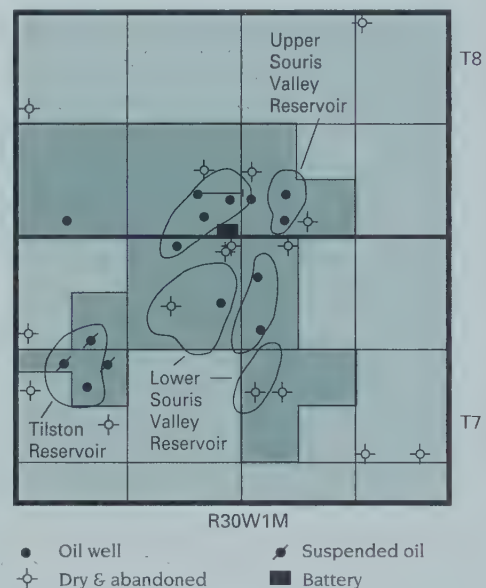
Probe's alternative to constructing its own plant is to develop relationships in the area that would allow the gas to be processed at economic rates. Probe is hopeful that, in fiscal 1996, this project will move forward into the development drilling phase, which is keenly anticipated. The development project, which was initiated by the acquisition of the 3-D seismic, entails a series of horizontal wells and additional vertical producers. Results from 1995 recompletions and test programs were excellent, as significant quantities of hydrocarbons were recovered.

Antler

Over the past year, Probe had both successes and failures at Antler. On the success side, Probe increased its working interest, acquired an additional gross 800 acres in the area and doubled the current production with a very successful recompletion of one of the existing Antler vertical wells. This new information should lead to additional vertical development wells being drilled in fiscal 1996. Some of the enthusiasm for this project was offset by the drilling of a very disappointing horizontal well, which did not penetrate enough of the porous Souris Valley to produce economically.

Once all of the drilling information can be assimilated into the existing data base for the area, an additional lateral horizontal leg may be drilled. Initial production rates of 400 BOPD are still anticipated for a successful horizontal well. Probe is confident that further operations at Antler will allow more of the estimated 1 MMBLS of oil "in place" to be produced.

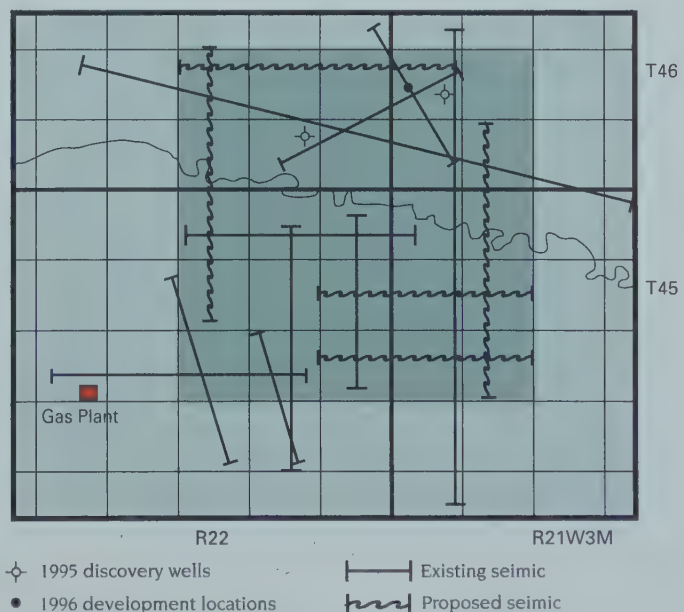
Antler



Little Pine

Little Pine

The Little Pine Indian Reserve was the site of several operational phases during fiscal 1995. Probe has a 57% working interest here, along with operatorship in 25 contiguous sections where two 2-D seismic programs were shot in conjunction with an acquisition of trade seismic, and where two exploratory wells were drilled. Both wells were considered oil discoveries; however, both encountered pay sections too thin to be deemed economic. The second 2-D seismic program has identified a commercially viable "step-out" location from the



original exploratory wells and will target both oil and gas zones. This well is expected to be drilled in the second quarter of fiscal 1996.

The encouraging results from the Probe-operated wells have been augmented by a new oil discovery three miles east of the Little Pine land base, and has provided the impetus to shoot a third 2-D seismic program which will fully evaluate the remaining land on the reserve. It is anticipated that Probe will drill additional exploratory wells on the remaining 23 undrilled sections of lands following the interpretation of the next seismic program.

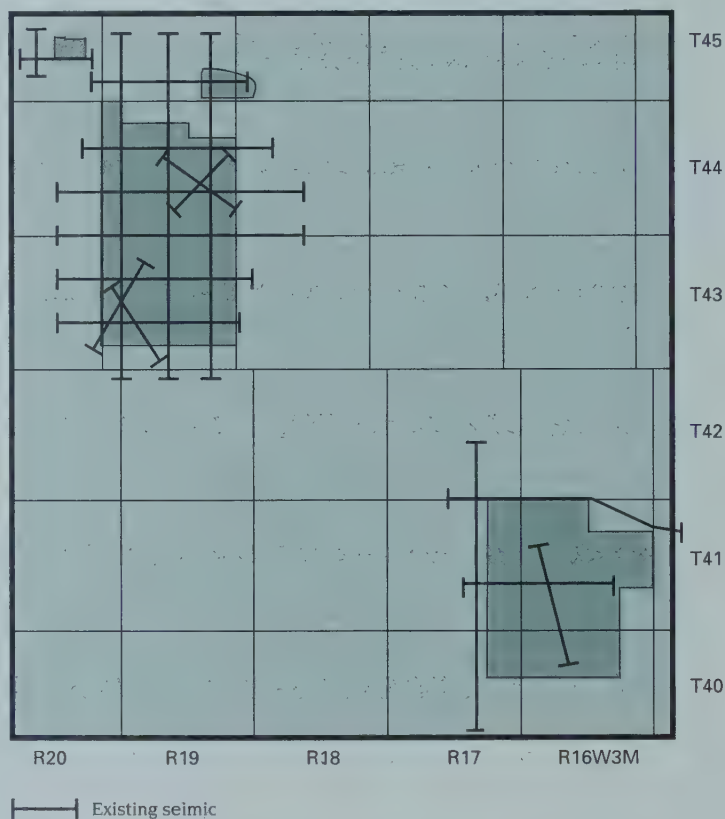
The prospect for Probe's oil target is modeled on projects which produce 100 to 150 BOPD. The Little Pine gas prospect is similar to offsetting wells which have produced 2 to 4 BCF.

Sweet Grass and Mosquito

Following the success of the initial exploration program at Little Pine, Probe entered into a similar relationship on two additional First Nations reservations in west central Saskatchewan - Sweet Grass and Mosquito.

At the Sweet Grass Reserve, which consists of 66 undrilled sections of land, Probe initially shot a 2-D seismic program that will be followed by the purchase of additional industry data in 1996. Similarly, the Mosquito Reserve consists of 45 undrilled sections of land. The initial 2-D seismic data appears to be extremely interesting and will be followed by a second delineation seismic program in 1996. Both projects are operated by Probe and, once the risk can be appraised, an appropriate level of working interest will be retained. The Company has planned two exploratory tests for these lands in 1996.

Sweet Grass / Mosquito



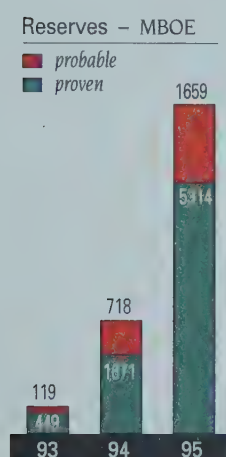
Jenner

Probe has a 60% working interest and operates 13 sections of exploratory land in the Jenner area of southern Alberta. Jenner was initially explored by Probe in 1993 and was once our only major operating project area. Following some initial marginal drilling results, it was decided to minimize capital spending on the project until Probe's risk profile would allow a more exploration-oriented program. Due to recent increases in industry

activity in this area, we have re-evaluated and updated all of our Jenner prospects. Several good leads have come out of this exercise and we are now actively looking for joint venture partners. Probe plans on reducing its working interest to target levels, participating in a limited number of the lower risk projects.

PRODUCTION AND RESERVES

The success of initiatives to achieve reserve growth in terms of dollar value and quality were confirmed in an April 1995 independent engineering report. Including the properties acquired from Intermont Inc., Probe now has 3.171 MMBLS of proven oil reserves plus 13 BCF of proven gas. The net present value of these reserves has been assessed at \$27.4 million, discounted at 15%. Probable reserves risked at 50% include 1.3 MMBLS of oil and 2.3 BCF of gas with a collective value of \$11.4 million discounted at 15%.



The increases compare with a September 1994 estimate of 1.67 MMBLS of proven reserves plus 718,000 BBLS of risked probable with a total value of \$15.76 million. The difference reflects the success of Probe's winter work program as well as continued improvement in the Kitscoty heavy oil project. The Intermont Inc. properties added proven reserves of 385,000 BBLS of oil and 1.9 BCF of gas plus probable oil reserves of 281,000 BBLS.

Oil production also improved significantly, due to initiatives put in place last fiscal year. Average production rates for fiscal 1995 were 225 BOEPD compared to 93 BOEPD, an increase of 143%. First quarter rates for 1996 are 465 BOEPD plus 350 BOEPD of shut-in production. These numbers plus expected results from technical programs currently underway put us on track to meet our year-end production target of 750 BOEPD.

Generally Probe's development strategy remains simple:

- 1) turn large proven reserve base into cash flow
- 2) turn large probable reserve base into proven reserves
- 3) turn large land base into reserves



MANAGEMENT DISCUSSION AND ANALYSIS

HIGHLIGHTS

- Probe continued to maintain a strong balance sheet and did not incur any long-term debt
- 1995 oil and gas operating revenue approximately doubled 1994 results
- Net oil and gas income increased by 182%
- Funds from operations increased to \$244,536 from \$21,136
- Net asset value per share increased 71% to \$1.32
- Reserve values increased 192% to 6.9 MBOE

Fiscal 1995 marked an important milestone in Probe's financial growth. Solid progress was made in developing the Company's reserve base with a resultant increase in production rates and reserve value. As Probe's development plan continues through 1996, this broad asset base will continue to contribute to the financial strength of the Company.

PRODUCTION REVENUE

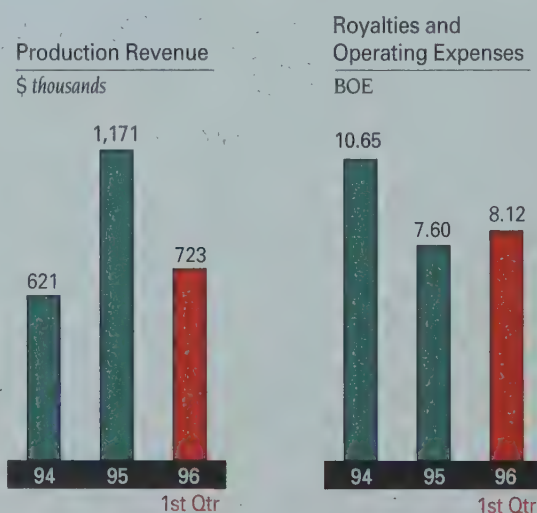
Oil and gas revenue for fiscal 1995 increased to \$1,171,355 from \$621,447 in 1994. Continued improvement at Kitscoty coupled with the effects of acquisition and work programs at Antler and Leduc led to gains in average daily production rates from 93 BOE to 226 BOE with first quarter results of 466 BOEPD. Probe's revenue goals for 1996 include putting an additional 350 BOEPD of shut-in production on stream.

Production gains for fiscal 1995 were offset by a 28% drop in the price per BOE received by Probe. First quarter pricing for fiscal 1996 shows a small recovery due in part to the effects of a change in product mix resulting from the Intermont transaction. Overall comparison of Probe's product pricing shows the Company to be in line with other producers producing the same approximate mix.

ROYALTIES AND OPERATING EXPENSES

Probe's operating expenses increased by 75% from \$319,781 to \$558,631; however, on a combined BOE comparison, production expenses and royalties decreased from \$10.65 in 1994 to \$7.60 in 1995. This can be attributed to the increase in production at Kitscoty which operates with a large percentage of its operating costs as fixed expenses. First quarter operating costs reflect annual rental and property tax expenses. As production volumes continue to increase, production expenses per BOE are expected to decline. The Kitscoty area contributed substantially to our production gains, but royalty expenses did not increase proportionately due to a 5% royalty rate.

An analysis of Probe's overall operating netbacks shows a decrease from \$7.66 in 1994 to \$6.63 per BOE in 1995. First quarter netback is \$7.54 per BOE which is directly comparable to other producers with a similar product mix. Continued improvement is expected based on increasing volumes through existing facilities with fixed operating costs.



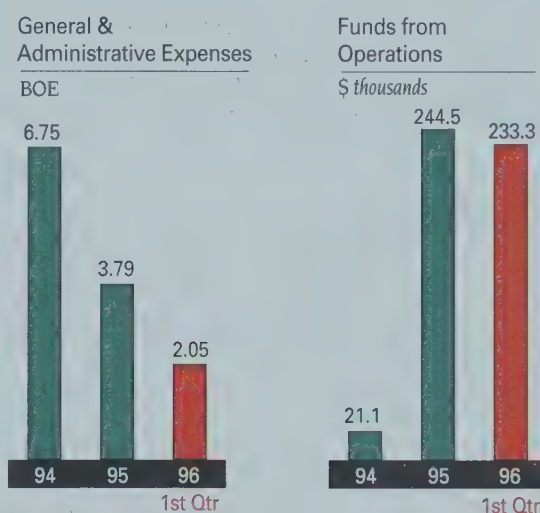
Gross depletion and depreciation expense of \$179,043 on a per BOE basis is relatively unchanged. The most significant factors affecting this low rate of depletion are the large reserve base and 15 year reserve life.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses increased in gross terms from \$228,967 to \$312,206. This represents a decrease from \$6.75 per BOE to \$3.79 per BOE as indicated by the first quarter. Increased staffing levels in 1996 are expected to raise total G&A expenses; however, increased production should continue to decrease per barrel G&A expenses.

FUNDS FROM OPERATIONS

Probe's number one corporate objective for 1995 was improvement in operating cash flow. Increased production levels and reduced operating expense led to an increase from \$21,136 in 1994 to \$244,536 in 1995. Cash flow in the first quarter of 1996 was \$233,342, which puts us on track for continued improvement. Production increases expected from the 1996 work programs should push cash flow to a level commensurate with Probe's reserve base.



LIQUIDITY AND CAPITAL RESOURCES

During 1995, the Company successfully increased its revolving production loan facility with Alberta Treasury Branch to a maximum of \$3,000,000. The facility is repayable on demand and bears interest at the prime rate plus one percent (June 30, 1995 - 9.75%). Collateral for the facility consists of a \$5,000,000 registered demand debenture providing a fixed and floating charge over all assets and undertakings and a general security agreement. In keeping with Probe's corporate policy, the funds are used for development expenditures and management of daily cash requirements.

Probe's capitalization consists of 22,524,848 outstanding shares and an additional 6,000,000 in common shares subscribed for at year-end. Market capitalization was \$12,836,182 based on closing share price of \$0.45 per share on June 30, 1995. In spite of market conditions, Probe continues to have access to equity financing. During the year, 8,628,446 common shares were issued and subscribed for cash and properties with an aggregate value of \$3,085,788.

AUDITORS' REPORT

To the Shareholders of

Probe Exploration Inc.

We have audited the balance sheets of **Probe Exploration Inc.** as at June 30, 1995 and 1994 and the statements of operations and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 1995 and 1994 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Calgary, Canada

October 2, 1995

A handwritten signature in cursive script that reads "Ernst & Young".

Chartered Accountants

BALANCE SHEETS

	Year ended June 30		Three months ended Sept. 30 (unaudited)	
	1995	1994	1995	1994
	\$	\$	\$	\$
ASSETS				
Current				
Cash and short-term deposits	44,649	8,777	109,890	439,345
Accounts receivable [note 3]	1,773,879	1,143,920	1,854,074	1,224,265
Total current assets	1,818,528	1,152,697	1,963,964	1,663,610
Oil and gas properties [notes 2 and 3]	7,022,031	3,544,932	7,222,808	3,990,047
	8,840,559	4,697,629	9,186,772	5,653,657
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities	1,912,691	1,277,628	1,334,191	1,499,057
Total current liabilities	1,912,691	1,277,628	1,334,191	1,499,057
Revolving credit facility [note 3]	1,000,000	250,000	1,800,000	250,000
Future site restoration	61,383	51,687	66,481	54,698
Shareholders' equity [note 4]				
Common shares	2,981,265	2,298,587	5,021,265	3,046,686
Common shares to be issued	2,040,000	—	—	—
Preferred shares	400,000	400,000	400,000	400,000
Retained earnings	445,220	419,727	564,835	403,216
Total shareholders' equity	5,866,485	3,118,314	5,986,100	3,849,902
	8,840,559	4,697,629	9,186,772	5,653,657

See accompanying notes

On behalf of the Board:



Director



Director

STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

	Year ended June 30		Three months ended Sept. 30 (unaudited)	
	1995	1994	1995	1994
	\$	\$	\$	\$
REVENUE				
Oil and gas sales	1,171,355	621,447	723,063	252,419
Gain on sale of oil and gas properties	—	508,596	—	—
Interest and other income	30,608	23,065	3,355	1,760
	1,201,963	1,153,108	726,418	254,179
EXPENSES				
Royalties	67,177	41,739	74,056	24,883
Operating	558,631	319,781	304,778	117,655
General and administration	312,206	228,967	87,633	69,942
	938,014	590,487	466,467	212,480
Earnings before depletion and interest	263,949	562,621	259,951	41,699
Interest	19,413	32,889	26,609	2,155
Depletion, depreciation and site restoration	179,043	101,238	93,727	44,822
Net income for the year	65,493	428,494	139,615	(5,278)
Retained earnings (deficit), beginning of year	419,727	(3,256,912)	445,220	419,727
Reduction of share capital [note 4]	—	3,256,912	—	—
Preferred share dividends	(40,000)	(8,767)	(20,000)	(11,233)
Retained earnings, end of year	445,220	419,727	564,835	403,216
Net income per common share	—	0.02	—	—

See accompanying notes

STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year ended June 30		Three months ended Sept. 30 (unaudited)	
	1995	1994	1995	1994
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net income for the year	65,493	428,494	139,615	(5,278)
Add items not requiring cash				
Depletion, depreciation and site restoration	179,043	101,238	93,727	44,822
Gain on sale of oil and gas properties	—	(508,596)	—	—
Funds from operations	244,536	21,136	233,342	39,544
Change in non-cash working capital items relating to operating activities	438,958	130,874	(12,076)	72,818
Cash provided by operating activities	683,494	152,010	221,266	112,362
INVESTING ACTIVITIES				
Additions to oil and gas properties	(5,060,786)	(4,676,812)	(289,407)	(486,926)
Proceeds from sale of oil and gas properties	1,051,222	2,056,340	—	—
Change in non-cash working capital items related to investing activities	(427,715)	(111,087)	(638,880)	74,998
Cash used in investing activities	(4,437,279)	(2,731,559)	(928,287)	(411,928)
FINANCING ACTIVITIES				
Issue of common shares	1,086,250	1,803,200	—	750,000
Common shares to be issued	2,040,000	—	—	—
Issue of preferred shares	—	400,000	—	—
Share issue costs	(40,454)	(151,000)	—	(1,900)
Preferred share dividends	(40,000)	(8,767)	(20,000)	(11,233)
Increase in revolving credit facility	750,000	230,000	800,000	—
Repayment of notes payable	—	(330,000)	—	—
Change in non-cash working capital items related to financing activities	(6,139)	11,391	(7,738)	(6,733)
Cash provided by financing activities	3,789,657	1,954,824	772,262	730,134
Increase (decrease) in cash during the year	35,872	(624,725)	65,241	430,568
Cash and short-term deposits, beginning of year	8,777	633,502	44,649	8,777
Cash and short-term deposits, end of year	44,649	8,777	109,890	439,345

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Oil and gas properties

The Company follows the full cost method of accounting for oil and gas operations whereby all costs relating to the exploration for and development of oil and natural gas reserves are capitalized in one cost centre. Substantially all of the Company's activities are conducted jointly with other non-affiliated companies. The accounts reflect only the Company's proportionate interest in such activities.

The capitalized cost of oil and gas properties is limited to an estimated recoverable amount which is the aggregate of future net revenues from production of proved reserves after deducting estimated future interest, general and administrative and site restoration expenses and income taxes. Future net revenues are calculated using year-end prices for oil and gas.

Gains or losses on the disposition of oil and gas properties are not recognized unless crediting the proceeds against accumulated costs would result in a change in the depletion rate by 20% or more.

Depletion is provided using the unit of production method. For purposes of the depletion calculation, gross proved oil and gas reserves as determined by independent engineers are converted to a common unit of measure on the basis of their approximate relative energy content.

Well equipment costs are depreciated on the unit of production basis while other equipment is depreciated at 20% of the declining balance.

Flow-through shares

Oil and gas exploration and development activities have been financed in part through proceeds from flow-through share issues. The flow-through share agreements provide for the related income tax deductions to be renounced to the shareholders. At the time the renunciations are made oil and gas properties and share capital are reduced by the value of the tax deductions renounced.

Future site restoration

Estimated future site restoration costs are provided on a unit of production basis. The provision is based on current costs of complying with existing legislation and industry practice for site restoration and abandonment.

Net income per common share

Net income per common share is calculated using the weighted average number of common shares outstanding during the year. Fully diluted earnings per share are not shown as there are no material dilutive factors.

2. OIL AND GAS PROPERTIES

	1995		
	Cost	Accumulated Depletion and Depreciation	Net
	\$	\$	\$
Petroleum and natural gas rights	9,077,173	3,482,674	5,594,499
Well equipment and other	1,681,460	253,928	1,427,532
	10,758,633	3,736,602	7,022,031

	1994		
	Cost	Accumulated Depletion and Depreciation	Net
	\$	\$	\$
Petroleum and natural gas rights	6,293,304	3,347,740	2,945,564
Well equipment and other	818,882	219,514	599,368
	7,112,186	3,567,254	3,544,932

During 1995, the Company capitalized \$142,214 (1994 - \$101,477) of general and administration expenditures related to exploration and development. The carrying value of the oil and gas properties has been reduced by \$1,291,879 representing the tax benefits of exploration and development expenditures renounced to shareholders in connection with flow-through share agreements.

3. REVOLVING CREDIT FACILITY

During 1995, the Company increased its revolving production loan facility to a maximum of \$3,000,000. The facility is repayable on demand and bears interest at the prime rate plus 1 percent (June 30, 1995 - 9.75%). Collateral for the facility consists of a \$5,000,000 registered demand debenture providing a fixed and floating charge over all assets and undertakings and a general security agreement. The lenders have advised the Company that they do not intend to require any repayments during the next fiscal year. Accordingly, the drawings have not been classified as current liabilities. The facility is subject to annual review.

4. SHARE CAPITAL

Authorized

The Company's authorized capital consists of an unlimited number of common shares and Class A voting and Class B non-voting preferred shares without nominal or par value.

NOTES TO FINANCIAL STATEMENTS

Issued	1995		1994	
	Number of Shares Issued	Amount \$	Number of Shares Issued	Amount \$
Common shares				
Balance, beginning of year	19,896,402	2,298,587	16,129,959	4,832,068
Reduction to eliminate deficit	—	—	—	(3,256,912)
Adjusted balance, beginning of year	19,896,402	2,298,587	16,129,959	1,575,156
Issued for cash	624,375	243,430	—	—
Issued for purchase of oil and gas properties	—	—	792,157	400,000
Issued upon exercise of stock options	75,000	11,250	660,000	103,200
Flow-through shares issued (net of issue costs)	1,929,071	791,108	2,314,286	1,149,000
Flow-through renouncements	—	(363,110)	—	(928,769)
Balance, end of year	22,524,848	2,981,265	19,896,402	2,298,587
Preferred shares				
Class A	400,000	400,000	400,000	400,000

The Class A preferred shares entitle the holder to cumulative preferential dividends at a rate of 10% per annum of the redemption amount (\$1.05) and are redeemable, retractable, and convertible into 1.66 common shares at the option of the holder, at any time.

Warrants

The Company attached warrants to certain common and flow-through shares issued during the year. No value has been ascribed to these warrants. As at June 30, 1995, 1,824,875 warrants for common shares were outstanding with exercise prices from \$0.60-\$0.75, and expiry dates from July, 1995 to May, 1996. 1,624,875 of these warrants expired on July 8, 1995.

Options

The Company has a stock option plan which provides for options to be issued to certain directors, officers and key employees. At June 30, 1995, options for 1,345,000 common shares were outstanding. These options expire on various dates from 1995 to 2000 and are exercisable at prices from \$0.15 to \$0.36 per share.

Common Shares To Be Issued

Effective June 1, 1995, the Company acquired oil and gas properties in exchange for a commitment to issue 6,000,000 common shares with a value of \$2,040,000. The common shares were issued on August 4, 1995.

5. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 44% (1993 - 44%) for the following reasons:

	1995 \$	1994 \$
Income taxes calculated at the statutory rate	29,040	189,994
Increase (decrease) in income taxes resulting from:		
Non-deductible royalties, mineral taxes and expenses	63,314	39,703
Alberta Royalty Tax Credit	(33,967)	(25,360)
Recognition of prior years' losses	(67,271)	(108,128)
Other	5,573	3,599
Non-taxable portion of capital gain	—	(107,709)
Depletion and depreciation without equivalent basis for income tax	3,311	7,901
Provision for income taxes	—	—

The Company has \$555,127 of non-capital losses available to reduce future taxable income, the benefits of which have not been recorded in the accounts. To the extent these balances are not used, they expire as follows:

Year	\$
1996	234,701
1997	70,072
1999	89,009
2002	161,345
	555,127

At June 30, 1995, the Company also had the following cumulative resource expenditures and undepreciated capital costs available indefinitely for deduction against future taxable income as follows:

	1995 \$	Annual Rate of Claim %
Canadian exploration expense	300,000	100
Canadian development expense	705,000	30
Canadian oil and gas property expense	3,235,000	10
Foreign exploration and development expense	41,000	10
Undepreciated capital cost	1,794,000	20-30

The deduction of \$1,476 of Canadian exploration expense, \$70,526 of Canadian development expense and \$58,065 of Canadian oil and gas property expense related to the acquisition of certain properties is limited to the income generated from those properties.

FIVE YEAR SUMMARY

	1995	1994	1993	1992	1991
FINANCIAL					
Oil & Gas Revenue	\$ 1,171,355	\$ 621,447	\$ 879,361	\$ 800,941	\$ 875,667
Other Revenue	30,608	531,661	443,103	92,022	77,064
Total Revenue	1,201,963	1,153,108	1,322,464	892,963	952,731
Production Expenses (incl. royalties)	625,808	361,520	463,549	576,588	497,917
General and Administration Expenses	312,206	228,967	258,033	279,123	279,569
Earnings (Loss) before Depletion, Depreciation and Interest	263,949	562,621	600,882	37,252	175,245
Interest	19,413	32,889	49,590	58,526	69,602
Depletion and Depreciation	179,043	101,238	250,263	1,249,898	81,824
Other	—	—	—	—	—
Net Income (Loss)	\$ 65,493	\$ 428,494	\$ 301,029	\$(1,271,172)	\$ 23,819
Funds from Operations	244,536	21,136	551,292	21,274	100,370
OPERATING					
Production (BOEPD) avg.	225.6	93	183	142	135
Average Price per BOE	\$ 14.23	\$ 18.31	\$ 13.17	\$ 15.45	\$ 17.73
Proven Reserves (MBOE)	5,314	1,671	449	593	733
Probable Reserves (MBOE) (riskd at 50%)	1,659	718	119	13	14
NPV at 15% (000's)	\$ 38,830	\$ 15,764	\$ 2,556	\$ 1,871	\$ 1,997
COMMON SHARE DATA					
Common Shares Outstanding	22,524,848	19,896,402	16,129,959	12,824,327	10,745,127
Common Shares to be Issued	6,000,000	—	—	—	—
Net Income (Loss) per Common Share	\$ —	\$.02	\$.02	\$ (0.11)	\$.00
Cash Flow from Operating Activities per Common Share	\$ 0.03	\$.01	\$.03	\$ —	\$.01
MARKET PRICE PER COMMON SHARE					
High	\$ 0.57	\$ 0.85	\$ 0.80	\$ 0.18	\$ 0.18
Low	\$ 0.22	\$ 0.28	\$ 0.10	\$ 0.04	\$ 0.05
Close	\$ 0.45	\$ 0.38	\$ 0.80	\$ 0.10	\$ 0.10
Volume	4,225,484	5,087,054	4,356,534	185,992	392,800
Land Holdings					
Gross	194,533	107,067	87,750	32,000	31,441
Net	95,795	35,933	29,000	7,680	4,032

CORPORATE INFORMATION

As at June 30, 1995

DIRECTORS

Dr. Norman R. Fischbuch, P.Geol. Calgary
Brock W. Gibson, Calgary
Stephen P. Gibson, Calgary
Dennis R. Gieck, P.Eng., Calgary
Rodger A. Tourigny, CA, Calgary
Marcel J. Tremblay, Calgary

OFFICERS AND KEY PERSONNEL

Stephen P. Gibson, President
Brock W. Gibson, Corporate Secretary
Sandra K. Harder, CGA, Controller
Kenneth M. Gilbreath, P.Eng., Operations Manager
Ralph P. Allen, P. Geol., Senior Geologist

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Alberta Treasury Branch
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Calgary, Alberta T2P 0T9

TRANSFER AGENT & REGISTRAR

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Calgary, Alberta T2P 3S8

STOCK EXCHANGE

the Alberta Stock Exchange
Trading Symbol - PRX

Reporting issuer in Quebec

AUDITORS

Ernst & Young
1300, 707 - 7th Avenue S.W.
Calgary, Alberta T2P 3H6

ABBREVIATIONS

BBLS	Barrels
BCF	Billion cubic feet
BOPD	Barrels of oil per day
MBBLS	Thousand barrels
BOE	Barrel(s) of oil equivalent *
BOEPD	Barrels of oil equivalent per day
MBOE	Thousand barrels of oil equivalent
MMBLS	Million barrels
MMBOE	Million barrels of oil equivalent
MCF	Thousand cubic feet
MMCF	Million cubic feet
MSTB	Thousand stock tank barrels

* To conform with depletion calculations natural gas is converted at six thousand cubic feet per barrel

Probe Exploration Inc.

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